EDFUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

AND

INDEPENDENT AUDITOR'S REPORT

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For the Years Ended September 30, 2007 and 2006

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
EDFUND
Rancho Cordova, California

We have audited the accompanying basic financial statements of EDFUND, a component unit of the California Student Aid Commission, as of and for the years ended September 30, 2007 and 2006, as shown in the accompanying table of contents. These financial statements are the responsibility of EDFUND's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of EDFUND's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of EDFUND as of September 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Perry-Smith LLP

December 28, 2007

EDFUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended September 30, 2007 and 2006

This section of the EDFUND financial statements present management's discussion and analysis (MD&A) of its financial performance during the fiscal years ended September 30, 2007, 2006 and 2005. The information contained in this MD&A should be read in conjunction with the basic financial statements following this section.

This report consists of four parts: *The Independent Auditors' Report, Management's Discussion and Analysis (this section), Basic Financial Statements* (Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows), and the *Notes to the Financial Statements*, which explain in further detail information contained in the financial statements.

EDFUND, a nonprofit public benefit corporation, was created on January 2, 1997, as an auxiliary organization of the California Student Aid Commission (Commission) pursuant to Section 69522(a) of the California Education Code. The creation of EDFUND was authorized by state legislation that empowered the Commission to establish a nonprofit auxiliary to carry out all activities associated with its participation in the Federal Family Education Loan (FFEL) Program. EDFUND is a proprietary component unit of the Commission, and operates under terms and conditions set forth in an annual operating agreement between the two organizations.

In administering the loan program on behalf of the Commission, EDFUND tracks cash activity related to lender claim payments and subsequent collection of defaulted loans. In addition to this activity, EDFUND's bank accounts are also used to deposit funds associated with administrative fees paid by the U.S. Department of Education (ED). These cash transactions are verified, recorded, and transferred to or reimbursed from the Commission Loan Program Federal or Operating Funds. As a result of this arrangement, the EDFUND Balance Sheets and Statements of Cash Flows reflect substantial fluidity from one accounting period to another.

Financial Highlights

In 2006-07, EDFUND administered the guarantee for nearly $6.7 billion in FFEL program Stafford, PLUS, and Graduate PLUS loans to borrowers, serving 1,740 colleges and universities. This annual loan volume is slightly lower than the $6.9 billion guaranteed in 2005-06, serving 1,666 colleges and universities. This modest decrease reflects the intensified competition among guarantors to maintain market share. EDFUND portfolio growth and preservation efforts include implementing federal default fee sharing strategies to reduce borrower costs and improved technology offerings.

In 2006-07, total loan volume, including consolidation loans, equaled $9.3 billion and reflects a healthy portfolio growth effort, although down 7.9 percent compared to 2005-06. This decrease is primarily in consolidation loan volume which declined from $3.2 billion in 2005-06 to $2.6 billion in 2006-07.

Claims, in the amount of $727 million, were paid to loan holders on defaulted loans in 2006-07, a 28.4 percent increase compared to the $566 million paid in 2005-06. The increase is centered in a rise in the rate of default in certain school types and the increase in the overall size of the outstanding portfolio.

Collections recoveries from defaulted loans for 2006-07 totaled $300 million, a 2.4 percent increase from the $293 million collected during 2005-06. This shift signals the successful upward trend in rehabilitation loan recoveries.

In 2006-07, borrowers saved $22.4 million in federal default fees paid on their behalf, a 107.4 percent increase compared to the $10.8 million funded in 2005-06.

Grant administrative costs for 2006-07 totaled $4.0 million, a 21.6 percent decrease from the $5.1 million incurred during 2005-06. These costs primarily represent funding for grant outreach and public awareness programs aimed at assisting and educating students on ways to fund their academic endeavors.

Total net assets increased by nearly $1.3 million, to almost $29.7 million, in 2006-07 due to interest income earned on working capital.

EDFUND's statements of Revenues, Expenses, and Changes in Net Assets reflect expenses incurred by EDFUND on behalf of the Commission, and their subsequent reimbursement called program service fees. The nature of the operating agreement between the Commission and EDFUND calls for a full reimbursement of all such costs incurred by EDFUND. As a result, program service fees and operating expenses will represent the same amounts after a standard accounting period close. Also specified in the operating agreement is the process where EDFUND initially invests in capital asset purchases and is reimbursed by the Commission as the assets are used in the administration of the FFEL Program.

Financial Analysis

Assets		2007	2006	2005
Cash and cash equivalents	$	70,463,165	35,480,343	53,713,454
Other assets		14,335,902	43,029,873	12,307,866
Capital assets, net of accumulated depreciation		3,710,715	3,080,543	4,231,105
Total assets	$	88,509,782	81,590,759	70,252,425
Liabilities and Net Assets				
Current liabilities	$	53,760,459	49,007,760	39,269,259
Long-term liabilities		5,083,605	4,198,175	3,500,972
Total liabilities		58,844,064	53,205,935	42,770,231
Net assets:				
Invested in capital assets		3,710,715	3,080,543	4,231,105
Unrestricted		25,955,003	25,304,281	23,251,089
Total net assets		29,665,718	28,384,824	27,482,194
Total liabilities and net assets	$	88,509,782	81,590,759	70,252,425

- Total assets exceeded liabilities by a total of $29.7 million at the end of the fiscal year 2006-07, compared to $28.4 million in 2005-06 and $27.5 million in 2004-05. These annual increases are attributed to the interest income earned on cash and cash equivalents. In 2006-07, approximately $3.7 million of the $29.7 million in total net assets are invested in capital assets.

- Cash and cash equivalents increased $35.0 million, or 98.6 percent, in 2006-07, compared to a decrease of $18.2 million, or 33.9 percent, in 2005-06. The current year increase is primarily from a substantially lower receivable of $13.4 million due from the Commission's Operating Fund at year-end. Conversely, the 2005-06 decrease in cash balances resulted from having a substantial receivable of $41.6 million due from the Commission's Operating Fund.

- Other assets decreased $28.7 million in 2006-07 compared to a $30.7 million increase in 2005-06. The current year decrease is a result of having a significantly lower receivable due from the Commission's Operating Fund at year-end. The 2005-06 other assets increase is primarily due to a substantial receivable due from the Operating Fund representing payments due for program services performed on behalf of the Commission.

- Capital assets, net of accumulated depreciation, increased $0.6 million, or 19.4 percent, to $3.7 million in 2006-07, up from the $3.1 million total reported in 2005-06. This slight increase is due to a limited number of acquisitions of new asset purchases made in 2006-07. The 2005-06 decrease is a result of limited new asset purchases during the prior year.

	2007	2006	2005
Operating revenues:			
Program service fees	$ 90,175,944	88,541,718	87,799,910
Total operating revenues	90,175,944	88,541,718	87,799,910
Operating expenses:			
Salaries and benefits	56,377,316	55,806,803	53,505,072
Collection agency fees	11,299,329	8,386,382	9,705,719
Consulting and professional fees	5,639,884	5,234,429	5,711,430
Computer expense	2,480,753	3,494,580	3,296,166
Other operating expenses	14,378,662	15,619,524	15,581,523
Total operating expenses	90,175,944	88,541,718	87,799,910
Net operating revenues	—	—	—
Nonoperating revenues (expenses):			
Grant administrative service fees	3,989,185	5,086,422	9,419,141
Interest income	1,280,894	902,630	616,093
Grant administrative costs	(3,989,185)	(5,086,422)	(9,419,141)
Total nonoperating revenues (expenses)	1,280,894	902,630	616,093
Change in net assets	1,280,894	902,630	616,093
Net assets, beginning of year	28,384,824	27,482,194	26,866,101
Net assets, end of year	$ 29,665,718	28,384,824	27,482,194

- EDFUND's total operating revenues increased $1.6 million, or 1.8 percent from 2005-06. In 2005-06, total operating revenues increased $0.7 million, or 0.8 percent compared to 2004-05. The change in program service fees between fiscal years is consistent with overall increases in operating expenses as these fees represent reimbursements to EDFUND for managing all FFEL program operational activities.

- Grant administrative service fees decreased $1.09 million, or 21.6 percent, in 2006-07 compared to 2005-06. In 2005-06, grant administrative fees decreased $4.3 million, or 46.0 percent compared to 2004-05. These fees represent reimbursements for grant administrative and outreach costs incurred by EDFUND in support of grant programs and public outreach campaigns as directed by the Commission.

- Interest income increased by $0.4 million, or 41.9 percent, in 2006-07 compared to 2005-06. In 2005-06, interest income increased by $0.3 million, or 46.5 percent compared to 2004-05. Annual results for both years reflect the prevailing economic conditions experienced during the year and higher interest rates in 2006-07 and 2005-06.

- Total operating expenses for 2006-07 increased $1.6 million, or 1.8 percent, compared to 2005-06. However, certain expense lines experienced significant variances from prior year activity as follows:
  - Salaries and benefits remained relatively consistent increasing $0.6 million, or 1.1 percent, compared to the prior year. This increase is primarily attributable to modest salary increases and the continued growth in medical benefit costs.
  - Collection agency fees increased $2.9 million, or 34.5 percent, compared to 2005-06 and are directly related to the $6.9 million, or 2.4 percent increase in gross collection recoveries compared to prior year.
  - Consulting and professional fees increased $0.4 million compared to 2005-06 primarily due to an increase in default prevention counseling efforts to assist delinquent borrowers from defaulting on their student loans.
  - Computer expenses and other operating expenses decreased $1.0 million and $1.2 million respectively compared to the prior year and reflect EDFUND management's efforts to improve operational efficiencies and control costs.
- In 2005-06, total operating expenses increased $0.7 million, or 0.8 percent, compared to 2004-05. However, certain expense lines experienced significant variances from prior year activity.
  - Salaries and benefits increased $2.3 million, or 4.3 percent, compared to the prior year. This increase is primarily attributable to salary increases consistent with the marketplace and a substantial increase in medical and pension benefit costs.
  - Collection agency fees decreased $1.3 million, or 13.6 percent, compared to 2004-05 and are directly related to the $94 million, or 24.3 percent, decrease in gross collection recoveries compared to prior year.
  - Consulting and professional fees decreased $0.5 million compared to 2004-05, primarily due to a curtailment of consultant fees, limiting the number and scope of all major and operational projects to only those deemed essential for maintaining regulatory compliance and customer service.
  - Other operating expenses increased $0.7 million, or 4.5 percent, compared to the prior year. This increase is noted predominantly in postage and travel. The travel expenses are related to the increase in marketing staff as operating costs grow proportionately in support of achieving loan volume growth. Additionally, postage increased as a result of a rate increase and additional printing of materials related to the changes associated with the Higher Education Reconciliation Act (HERA).

EDFUND

BALANCE SHEETS

September 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 70,463,165	$ 35,480,343
Due from Operating Fund (Note 4)	13,432,577	41,575,907
Prepaid and other assets	903,325	1,453,966
Total current assets	84,799,067	78,510,216
Capital assets, net of accumulated depreciation (Note 5)	3,710,715	3,080,543
Total assets	$ 88,509,782	$ 81,590,759
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 1,118,069	$ 1,780,967
Due to Federal Fund (Note 4)	20,429,194	14,768,973
Accrued payroll	4,966,858	5,299,154
Accrued expenses and other liabilities	7,246,338	7,158,666
Advance payable to the Commission (Note 2)	20,000,000	20,000,000
Total current liabilities	53,760,459	49,007,760
Long-term liabilities (Note 8)	5,083,605	4,198,175
Total liabilities	58,844,064	53,205,935
Commitments and contingencies (Notes 6 and 9)		
Net assets:		
Invested in capital assets (Note 5)	3,710,715	3,080,543
Unrestricted	25,955,003	25,304,281
Total net assets	29,665,718	28,384,824
Total liabilities and net assets	$ 88,509,782	$ 81,590,759

The accompanying notes are an integral part of these financial statements.

EDFUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2007 and 2006

	2007	2006
Operating revenues:		
Program service fees	$ 90,175,944	$ 88,541,718
Total operating revenues	90,175,944	88,541,718
Operating expenses:		
Salaries and benefits (Notes 7 and 8)	56,377,316	55,806,803
Collection agency fees	11,299,329	8,386,382
Consulting and professional fees	5,639,884	5,234,429
Facilities operations and rental expense (Note 6)	3,995,033	3,960,626
Computer expense	2,480,753	3,494,580
Travel expenses	2,455,151	2,838,291
Depreciation expense (Note 5)	1,713,098	1,934,014
Printing expenses	1,109,201	1,520,673
Other operating expenses	5,106,179	5,365,920
Total operating expenses	90,175,944	88,541,718
Operating income (loss)	-	-
Nonoperating revenues (expenses):		
Grant administrative service fees	3,989,185	5,086,422
Interest income, net (Note 3)	1,280,894	902,630
Grant administrative costs	(3,989,185)	(5,086,422)
Total nonoperating revenues (expenses)	1,280,894	902,630
Change in net assets	1,280,894	902,630
Net assets, beginning of year	28,384,824	27,482,194
Net assets, end of year	$ 29,665,718	$ 28,384,824

The accompanying notes are an integral part of these financial statements.

EDFUND

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 117,706,037	$ 58,306,438
Cash paid to suppliers and vendors	(45,520,476)	(44,136,703)
Cash paid to employees for services	(42,413,821)	(41,253,547)
Net cash provided by (used in) operating activities	29,771,740	(27,083,812)
Cash flows from noncapital financing activities:		
Purchase of defaulted loans	(727,424,573)	(566,479,948)
Reimbursements from the Commission of defaulted loans	727,424,573	566,479,948
Receipts from ED	568,528,331	531,471,703
Reimbursements to the Commission of amounts received from ED	(562,758,727)	(522,753,990)
Cash receipts from repurchased loans	17,451,826	14,254,269
Cash remitted to the Commission for repurchased loans	(17,451,826)	(14,254,269)
Cash receipts from collections	253,776,452	157,499,245
Cash remitted to the Commission for collections	(253,272,598)	(157,485,435)
Net cash provided by noncapital financing activities	6,273,458	8,731,523
Cash flows used in capital and related financing activities:		
Purchases of capital assets	(2,343,270)	(783,452)
Cash flows from investing activities:		
Interest received	2,265,848	1,957,383
Remittances to the Commission of interest received	(984,954)	(1,054,753)
Net cash provided by investing activities	1,280,894	902,630
Net increase (decrease) in cash and cash equivalents	34,982,822	(18,233,111)
Cash and cash equivalents, beginning of year	35,480,343	53,713,454
Cash and cash equivalents, end of year	$ 70,463,165	$ 35,480,343
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ -	$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	1,713,098	1,934,014
Change in assets and liabilities:		
Due from the Commission	27,530,094	(30,235,280)
Prepaid and other assets	550,641	(299,801)
Accounts payable	(662,898)	1,131,053
Accrued payroll	(332,296)	264,088
Accrued expenses and other liabilities	87,671	(575,089)
Long-term liabilities	885,430	697,203
Net cash provided by (used in) operating activities	$ 29,771,740	$ (27,083,812)

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND OPERATIONS

EDFUND, a nonprofit public benefit corporation, was created on January 2, 1997 as an auxiliary organization of the California Student Aid Commission (the "Commission") pursuant to Section 69522(a) of the California Education Code. Additionally, EDFUND is a component unit of the Commission.

EDFUND was created to administer, operate, and provide services essential to the Commission's participation in the Federal Family Education Loan (FFEL) Program. Most of the expenses incurred for administering the FFEL Program are recorded in EDFUND's financial records while other expenses incurred for administering the FFEL Program are recorded in financial statements of the Commission. In order to fully understand the nature of and the expenses associated with administering the FFEL Program, the EDFUND financial statements should be read in conjunction with the financial statements of the Commission's Federal Student Loan Reserve Fund (Federal Fund) and Student Loan Operating Fund (Operating Fund) as of and for the year ended June 30, 2007.

EDFUND operates under the terms and conditions set forth in an annual operating agreement between the Commission and EDFUND. The operating agreement is renewed or extended annually on October 1. Under the agreement, EDFUND is reimbursed for all expenses incurred on behalf of the Commission in administering the FFEL Program.

In the event that the annual operating agreement should terminate and in the absence of a subsequent agreement, EDFUND assets become the property of the Commission.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts of EDFUND are maintained in accordance with the principles of fund accounting. Fund accounting is a system under which resources are classified for accounting and reporting purposes into funds established according to their purpose.

EDFUND is a proprietary component unit of the Commission. Proprietary component units use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow. The financial statements of EDFUND have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board (GASB), as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. EDFUND has not applied accounting standards issued after November 30, 1989 by the FASB.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Tax-Exempt Status

EDFUND qualifies as a tax-exempt organization under Section 501(c)(3) of the United States Internal Revenue Code and corresponding provisions of California law and, accordingly, is not subject to federal or state income taxes.

(c) Capital Assets

Capital assets are those assets purchased or acquired with an original cost of $5,000 or more. Additions, improvements or other capital outlays that significantly extend the useful life of an asset are capitalized. These assets are reported at historical cost and are depreciated using the straight-line method over their estimated useful lives of three to five years (term of lease as to leasehold improvements). Costs incurred for repairs and maintenance are expensed as incurred. EDFUND evaluates capital assets for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

(d) Revenue Recognition

Program service fee revenue represents an amount equal to the expenses incurred by EDFUND in administering the FFEL Program on behalf of the Commission. Program service fee revenue is recognized when the related expense is incurred.

Operating revenues and expenses result from exchange transactions associated with the principal activities of EDFUND. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as investment earnings and grant administrative service fees and costs, result from nonexchange transactions and/or revenues and expenses not earned or incurred in administering the FFEL Program.

(e) Salaries

EDFUND has two types of employees: employees directly hired by EDFUND and civil service employees of the Commission who have been assigned to work for EDFUND (Assigned Employees). Salary expense includes the salaries, wages, and related benefits of both EDFUND employees and the Assigned Employees. The salaries, wages and related benefits of the Assigned Employees are paid by the Commission and EDFUND reimburses the Commission for those amounts.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Related Party Transactions

On January 2, 1997, the Commission advanced $20,000,000 to EDFUND for operating capital. The terms of the advance have not been clearly defined and, therefore, are determined to be due on demand. As of September 30, 2007, no payments were required. Interest income earned on the unused portion of the advance is reimbursed to the Commission.

As described more fully in Note 1, the majority of EDFUND's revenues are earned under the operating agreement with the Commission. EDFUND is contingently liable on an operating lease provided for the benefit of the Commission (Note 6).

As described more fully in Note 4, all expenses incurred as a function of performing FFEL services for the Commission or any amounts paid on behalf of the Commission by EDFUND, are fully reimbursable from the Commission.

(g) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(h) Reclassification

Certain reclassifications have been made to prior year's balances to conform to classifications used in 2007.

3. CASH AND CASH EQUIVALENTS

At September 30, 2007, EDFUND maintained cash equivalents of $40,235,016 and money market deposit accounts in the amount of $30,228,149. At September 30, 2006, EDFUND maintained cash equivalents of $34,433,471 and money market deposit accounts in the amount of $1,046,872. Interest earned on cash equivalents is allocated between EDFUND and the Commission. Interest earned on unused monies of the operating advance is due to the Commission and EDFUND retains the remaining interest earned.

At September 30, 2007 and 2006, the carrying value of the cash and cash equivalents approximated its market value because of its short-term maturity. Interest earned for the year ended September 30, 2007 totaled $2,265,848 of which $984,954 was allocated to the Commission. Interest earned for the year ended September 30, 2006 totaled $1,957,383 of which $1,054,753 was allocated to the Commission.

3. CASH AND CASH EQUIVALENTS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, EDFUND's deposits may not be returned. EDFUND does not have a deposit policy for custodial credit risk. EDFUND maintains cash and cash equivalent accounts which are insured by either the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC). The California Government Code requires California banks and savings and loan associations to secure EDFUND's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits, and collateral is considered to be held in the name of EDFUND. All cash held by financial institutions is entirely insured or collateralized. As of September 30, 2007 and 2006, EDFUND had insured cash and cash equivalent balances of $600,000 and uninsured but collateralized balances of $72,270,848 and $36,384,501, respectively.

As a component of the Commission, EDFUND conforms to the investment policy of the State Treasurer and the Federal regulatory FFEL Program fiscal requirements which govern reserve fund investments. Additional information on the State Treasurer's investment policy, including investment credit type, interest rate risk and concentration of credit risk, is available at the State Controller's website (www.sco.ca.gov).

4. DUE (TO) FROM THE COMMISSION

All expenses incurred as a function of performing FFEL services for the Commission or any amounts paid on behalf of the Commission by EDFUND are fully reimbursable from the Commission. Conversely, all monies received by EDFUND on behalf of the Commission are due to the Commission.

The net amount due (to) from the Commission at September 30, is comprised of the following:

	2007	2006
Amounts due from the Commission:		
Due from Operating Fund	$ 13,432,577	$ 41,575,907
Amounts due to the Commission:		
Due to Federal Fund	(20,429,194)	(14,768,973)
Due (to) from the Commission	$ (6,996,617)	$ 26,806,934

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Disposals	Ending Balance
Vehicles	$ 58,186			$ 58,186
Computer equipment	4,879,166	$ 251,303	$ (751,871)	4,378,598
Computer software	4,984,459	191,309		5,175,768
Equipment, furniture and fixtures	804,675	777,749	(49,203)	1,533,221
Leasehold improvements	335,347			335,347
Construction in progress	43,673	1,154,617	(22,056)	1,176,234
	11,105,506	2,374,978	(823,130)	12,657,354
Less accumulated depreciation:				
Vehicles	(40,814)	(13,793)		(54,607)
Computer equipment	(3,755,384)	(597,505)	747,421	(3,605,468)
Computer software	(3,396,651)	(851,259)		(4,247,910)
Equipment, furniture and fixtures	(589,287)	(158,291)	44,001	(703,577)
Leasehold improvements	(242,827)	(92,250)		(335,077)
	(8,024,963)	(1,713,098)	791,422	(8,946,639)
Capital assets, net	$ 3,080,543	$ 661,880	$ (31,708)	$ 3,710,715

Capital asset activity for the year ended September 30, 2006 is as follows:

	Beginning Balance	Transfers and Additions	Transfers and Disposals	Ending Balance
Vehicles	$ 58,186			$ 58,186
Computer equipment	4,345,447	$ 563,384	$ (29,665)	4,879,166
Computer software	3,482,655	1,501,804		4,984,459
Equipment, furniture and fixtures	726,068	78,607		804,675
Leasehold improvements	335,347			335,347
Construction in progress	1,404,016	43,673	(1,404,016)	43,673
	10,351,719	2,187,468	(1,433,681)	11,105,506
Less accumulated depreciation:				
Vehicles	(29,176)	(11,638)		(40,814)
Computer equipment	(2,925,530)	(859,519)	29,665	(3,755,384)
Computer software	(2,556,800)	(839,851)		(3,396,651)
Equipment, furniture and fixtures	(463,505)	(125,782)		(589,287)
Leasehold improvements	(145,603)	(97,224)		(242,827)
	(6,120,614)	(1,934,014)	29,665	(8,024,963)
Capital assets, net	$ 4,231,105	$ 253,454	$ (1,404,016)	$ 3,080,543

6. COMMITMENTS AND CONTINGENCIES

Operating Leases

EDFUND maintains various operating leases for its main and regional offices. Rental expense for the years ended September 30, 2007 and 2006 was $3,237,894 and $3,158,665, respectively. Future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2007, are as follows:

Year Ending September 30,	Gross Obligation Per Lease Agreements
2008	$ 4,353,324
2009	4,555,471
2010	4,421,643
2011	4,438,079
2012	4,535,877
2013-2017	24,259,831
2018	3,856,286
	$ 50,420,511

In May 2001, EDFUND entered into a noncancelable operating lease for the Commission's office facility that expires in 2008. The annual minimum rental payments are included in the schedule above. The Commission reimburses EDFUND for all costs associated with the lease agreement.

The noncancelable operating lease for EDFUND's main offices expires in 2007 and has been extended through August 2008. In the event of default by EDFUND or the termination of the operating agreement between the Commission and EDFUND, the leases will be assumed by the Commission for the remainder of the lease terms. In November 2006, EDFUND entered into a noncancelable operating lease for its office facility that expires in 2017. This new build-to-order complex is located within two miles of EDFUND's current main office. Lease payments will commence upon occupancy on July 1, 2007 and are included in the future minimum rental payments schedule above.

7. RETIREMENT BENEFITS

EDFUND Employees

Effective July 1, 1997, EDFUND established a defined contribution retirement savings plan comprised of the EDFUND Employees' Retirement Plan 403(b) and the EDFUND Employer Contribution Plan 401(a) for those employees hired by EDFUND. Effective January 1, 2003, EDFUND established the new EDFUND 401(k) Plan. The 403(b) Plan was "frozen" and beginning January 1, 2003 employee voluntary contributions were made into the new 401(k) Plan. In addition, the 401(a) Plan converted to the new EDFUND 401(k) Plan. EDFUND makes a non-elective contribution on behalf of each EDFUND employee. In addition, all regular full-time and part-time employees over the age of 18 and working more than 20 hours per week may contribute on a pre-tax basis from 1 percent to 90 percent of their annual compensation up to the Internal Revenue Service limits. EDFUND contributes a percentage match of 100 percent of employee contributions up to 4 percent of deferred salary.

The Plan is administered by Fidelity Investments. Amendments to the Plan are subject to approval and ratification by EDFUND's Board of Directors.

Total covered payroll for the EDFUND employees was $40,776,137 and $41,660,281 for the years ended September 30, 2007 and 2006, respectively. Total employer contributions and employee contributions were $3,326,027 and $3,073,401, respectively, for the year ended September 30, 2007, and $3,301,383 and $2,870,924, respectively, for the year ended September 30, 2006.

In addition to defined contribution plan benefits, EDFUND also provides postretirement benefits through the EDFUND Postretirement Medical and Life Plan (the "Plan"). The Plan provides for medical, dental, vision and life insurance benefits to employees based on age upon retirement and length of service. The postretirement healthcare benefits are funded on a pay-as-you-go basis and the related expenses and liabilities are calculated using the actuarial-based accrual method. EDFUND uses a September 30 measurement date and assumed that the annual discount rate is 6.0 percent and 5.75 percent at the end of the measurement periods September 30, 2007 and 2006. EDFUND recognized expense of $722,229 for the years ended September 30, 2007 and 2006. At September 30, 2007 and 2006, there were four and five retirees eligible to receive benefits, respectively. Included in long-term liabilities is the EDFUND Postretirement Medical and Life Plan of $4,529,000 and $3,768,860 for the years ended September 30, 2007 and 2006, respectively. These determinations were computed similar to the actuarial approach outlined in Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

7. RETIREMENT BENEFITS (Continued)

Assigned Employees

All assigned employees are eligible to participate in the California Public Employees' Retirement System (PERS). PERS, a multiple-employer defined benefit retirement plan, is administered by a Board of Administration composed of individuals (1) elected by PERS membership; (2) appointed by elected State of California officials; and (3) elected State of California officials. PERS provides retirement, disability, and death benefits. Such benefits are based on the employee's years of service, age, and final compensation. PERS issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to California Public Employees' Retirement System, 400 Q Street, Sacramento, California 95811-6210.

Assigned employees may participate in PERS at one of three levels; first-tier participants contribute a portion of their salaries to a retirement fund, second-tier employees do not make contributions and Alternate Retirement Program (ARP) participants contribute to a special retirement account for the first two years of state service. The ARP was established for State of California employees hired on or after August 11, 2004. All new state civil service employees are automatically enrolled in ARP for the first two years of employment with the state. After two years, employees will have the option of choosing between the first-tier and second-tier. In addition to the employee's contributions to PERS, the state also contributes into PERS towards civil service retirement benefits. The state's contribution varies annually based on the Budget Act. First-tier employees vest after five years of service and may receive retirement benefits at age 50. Second-tier employees vest after ten years of service and may receive retirement benefits at age 55. As of September 30, 2007 and 2006, there were 39 and 45 employees classified as first tier, respectively, 2 and 4 employees classified as second tier, respectively, and no employees participating in the ARP, supporting direct FFEL Program activities. state records relating to pension benefit obligations and new assets available for benefits are not separately available for EDFUND.

Total PERS expense and funded contributions for the Assigned Employees was $460,827 and $519,737 for the years ended September 30, 2007 and 2006, respectively. All contributions were paid as of September 30, 2007.

8. DEFERRED COMPENSATION

EDFUND offers certain employees a deferred compensation plan "rabbi trust" created in accordance with Internal Revenue Code Section 457. The plan, available to select employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan are placed in trust for participants and their beneficiaries. Included in long-term liabilities is the Deferred Compensation Obligation of $554,605 and $429,315 for the years ended September 30, 2007 and 2006, respectively.

9. SUBSEQUENT EVENTS

Sale of the Commission's Loan Guarantee Function and EDFUND

On August 24, 2007, the 2007-08 budget for the State of California was signed by the Governor. Included in the budget was legislation (Senate bills 89 and 91) providing for the sale of the California Student Aid Commission's loan guarantee function and EDFUND for an estimated $980 million. It was originally anticipated that this sale would take place during the last quarter of the 2007-08 state fiscal year; however, it is currently unclear when the sale may be consummated or the probable selling price. Information about the 2007-08 budget for the State of California is available through the Department of Finance budget website (www.ebudget.ca.gov).

Data Center Lease Obligation

In December 2007, EDFUND management began pursuing negotiations with an independent party to enter into an operating lease for a separate facility to house data center operations. EDFUND anticipates reaching an agreement during the second quarter of the fiscal year ending September 30, 2008. Consequently, the future terms of this agreement are uncertain at present.